

FISCAL YEAR 2000 STATE SPENDING UNDER THE CHILD CARE AND DEVELOPMENT FUND (CCDF) AS OF 9/30/2000

Background:

Under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, the Child Care and Development Fund makes available to States three child care funding streams, the Mandatory, Matching and Discretionary funds. Each of these funding streams involves specific financial requirements that must be met by States.

The **Mandatory** fund is 100 percent Federal funds. No State match is required. Mandatory funds are available until they are expended unless the State chooses to expend its Matching funds. To qualify for its share of the Matching funds, a State must obligate its Mandatory funds by the end of the Federal fiscal year (9/30).

The **Matching** fund must be matched by a State at its applicable Federal Medical Assistance Percentage (FMAP) rate. Matching funds are available to a State if: (1) its Mandatory funds are obligated by the end of the Federal fiscal year; and (2) within the same fiscal year, the State expends State funds equal to its State Maintenance of Effort (MOE) level. Matching funds must be fully expended in two years.

The **Discretionary** fund is 100 percent Federal funds. No State match is required. States have two years to obligate their Discretionary funds and an additional year to expend those obligations. In FY 2000, Congress earmarked specific amounts of the **Discretionary** fund for: (1) Child Care Quality Improvement Activities (\$172.6 million); (2) Infant and Toddler Quality Improvement (\$50 million); and (3) Child Care Resource and Referral and School Aged Child Care Activities (\$19.1 million).

FY 2000 Highlights

This summary document provides information obtained from the State financial reports submitted for the Fiscal Year (FY) 2000 (October 1, 1999-September 30, 2000). The FY 2000 State reports detail expenditures from each of the CCDF funding streams (Mandatory, Matching, and Discretionary) including expenditures from direct and non-direct services as well as administration and quality activities. States will continue to report on their expenditures of FY 2000 funds until expended and, therefore, these numbers will be subject to annual updates and cannot be considered final.

Total Expenditures - In FY 2000, States expended a total (combined Federal and State) of \$8.0 billion. Of that amount, Federal CCDF funds represented \$5.1 billion of the expenditures including \$3.8 billion in FY 2000 CCDF funds and \$1.3 billion in prior year (FYs 1998 and 1999) CCDF funds (these expenditures include both CCDF and TANF transfers into CCDF). Under CCDF, States also expended \$1.9 billion in State dollars (Matching and MOE). In addition, direct spending under the Temporary Assistance for Needy Families (TANF) program for child care services totaled \$1.0 billion.

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Maintenance of Effort (MOE). To be entitled to their share of Matching funds, States must spend State funds for child care at a level equal to the greater of their FY 1994 or FY 1995 Title IV-A child care expenditures. All States reported that they spent their own funds at the required MOE levels. Eleven States reported spending a total of \$160 million over the required MOE level.

Non-Federal Match. The Matching fund must be matched by State expenditures in excess of the amount required to satisfy the MOE requirement and at the 2000 FMAP rate. Two States chose not to accept their full Matching allocations, thereby freeing up approximately \$10 million for reallocation in FY 2000. Other States met the required match and were able to obligate the \$10 million reallocated by the close of the Federal FY. At the end of the fiscal year, two States released almost \$3.8 million in Matching funds (.4 percent) for reallocation in FY 2001. State expenditures totaled \$1.8 billion. This consisted of \$765 million of State match and \$1 billion in State MOE expenditures. This represented 32.6 percent of total CCDF State and Federal expenditures.

Temporary Assistance to Needy Families (TANF) Block Grant Transfers. The Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996 authorized States to transfer portions of their TANF grant to either the CCDF or the Social Services Block Grant. Forty-three States reported transferring funds to CCDF in amounts ranging from \$500,000 to \$530 million. A total of \$2.0 billion in FY 2000 Federal TANF funds were transferred to CCDF. The transferred TANF funds equal 36.1 percent of the total Federal funds (\$5 billion including TANF transfers) available to States for CCDF in FY 2000. This is less than the amount transferred in FY 1999 (\$2.43 billion) which may be attributable to States transferring prior year funds in FY 1999. Effective in FY 2000, as stipulated in the TANF Final Rule, States may transfer current year TANF funds only. (Please note that the amounts reported here may be different from those amounts reported on the ACF-196 (TANF financial report) because of the lag time in processing a transfer and reporting deadlines).

Direct Services. CCDF expenditures spent directly by States on child care services was \$3.8 billion or 84.5 percent of the FY 2000 combined Federal and State CCDF expenditures (excluding MOE). States expended \$427 million more in FY 2000 than in FY 1999 for direct services.

Administrative Costs. By law, no more than five percent of CCDF funds may be used for administrative costs. State administrative expenditures were \$119 million in FY 2000, or 2.6 percent of FY 2000 total Federal and State expenditures -- well below the limit. Comparing these expenditures to FY 1999, State spending in administrative costs decreased by \$3 million.

Quality Services. The statute requires a minimum of four percent of total CCDF expenditures be spent on quality activities. Overall, States reported expending \$275 million on improving the quality of child care services, 6.1 percent of FY 2000 combined Federal and State expenditures. States increased spending for quality services over FY 1999 spending by \$53 million.

Earmark Funds. Of the \$241.7 million earmarked, States reported spending a total of \$56.1 billion. The breakdown of the earmarked expenditures includes: \$33.1 billion on Child Care Quality Improvement Activities; \$13.4 million on Infant and Toddler Quality Improvement; and \$9.6 million on Child Care Resources and Referral and School Aged Child Care activities.

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Non-Direct Services. States reported spending a total of \$250 million in non-direct services, 5.5 percent of total State and Federal expenditures. Non-direct services expenditures included roughly \$22 million on child care computer information systems, \$123 million on certificate programs and \$105 million on making eligibility determinations and other costs. States decreased spending in non-direct service expenditures by half compared to FY 1999. States report spending more on computer information systems in FY 2000 than in FY 1999 (\$15 million in FY 1999) and less for certificate programs and eligibility determinations and other costs (\$167 million and \$285 million, respectively in FY 1999).

Unobligated Balances. States must obligate their entire Mandatory allotment by the end of the fiscal year in order to be eligible for Federal Matching funds. In FY 2000, States obligated 100 percent of the Federal Mandatory funds. States also obligated 99.6 percent, or \$1.1 billion, of Federal Matching funds awarded in FY 2000. States were awarded \$1.1 billion in Discretionary funds and transferred \$2 billion from the TANF program into the CCDF Discretionary fund, making a total of \$3.1 billion of Federal funds available in the Discretionary fund. Of the \$3.1 billion of Federal funds available in the Discretionary fund, only 10 percent, or \$304 million, was unobligated in FY 2000. States have an additional year to obligate these funds.

Expended Funds. States expended \$983 million, or 82.5 percent, of the available Mandatory fund. States spent 83.2 percent, or \$946 million, of the Matching fund. Of the \$3.1 billion available in the Discretionary fund, States expended over half \$1.8 billion, or 59.2 percent.

Unexpended Funds. Seventeen States have a balance of \$195 million of Mandatory funds to spend, and nineteen States have \$185 million of Matching funds to spend. Of the \$3.1 billion of Federal funds available in the Discretionary fund, forty-seven States and Territories have \$1.3 billion to spend. States will continue to expend FY 2000 funds in Fiscal Years 2001 and 2002.